IMF
SURVEY
A PUBLICATION OF THE INTERNATIONAL MONETARY FUND
June 14, 1993

# Seminar Explores Links Between Macro Policy and the Environment

The relationship between macroeconomic policies and the environment was the subject of a seminar—the first of its kind hosted by the IMF—held on May 12–14. Twenty leading environmentalists from around the world joined 15 staff members from the IMF and 2 from the World Bank in an informal discussion on how macroeconomic and structural adjustment policies, with which the IMF is concerned, interact with environmental issues. The seminar followed up on an informal meeting that IMF Managing Director Michel Camdessus had with environmentalists at the June 1992 Rio de Janeiro Earth Summit, and was part of a continuing dialogue between the IMF and nongovernmental organizations (NGOs).

Sessions at the seminar were moderated, alternately, by Margaret Kelly, Deputy Director of the IMF's External Relations Department, and Robert Repetto, Vice President of the World Resources Institute.

The seminar featured brief, informal presentations by IMF staff and environmentalists that were followed by discussions. While there were several areas of agreement, views differed, as expected, on the importance of macroeconomic policies for environmental issues. Environmentalists stressed the *fundamental* importance of the environment to economic activity, which could not be sustained over the long haul, they maintained, if environmental degradation were to proceed unchecked. They wanted the IMF to change its approach to make environmental concerns a *(Please turn to page 187)*

*Erb: macroeconomic stabilization is necessary for environmental protection.*

## CONTENTS

Volume 22, Number 12

**SELECTED TOPICS**

**Macro Policy and the Environment**
*Page 177*

**Adjustment and Poverty Reduction**
*Page 178*

**Market Discipline and Borrowing**
*Page 182*

**IMF ACTIVITIES**

**Managing Director's Address to OECD Council**
*Page 185*

**SDR Rates**
*Page 184*

**From the Executive Board**
*Page 186*

**Currency Units per SDR**
*Page 190*

SELECTED TOPICS

# Poverty Reduction and Structural Adjustment Discussed at IMF Seminar

Three experienced economists—one each from the IMF and the World Bank, and the third a former governor of the Central Reserve Bank of Peru—examined structural adjustment and poverty reduction at a recent IMF seminar. Their differing experiences and perspectives enabled them to shed light on several aspects of the complex relationship between these two goals of many developing countries' economic and financial policies. The seminar, held in the IMF Visitors' Center on April 20, was moderated by Robert W. Russell, Chief of the Public Affairs Division in the IMF's External Relations Department.

***Both the IMF and the World Bank work to promote "high-quality growth" in their member countries.***

### The World Bank's Approach

***Overview of Poverty Trends.*** Helena Ribe, Senior Economist in the World Bank's Education and Social Policy Department, noted that although developing countries had made tremendous gains in both incomes and living standards over the past three decades, the rate of improvement slowed during the 1980s. She observed that the number of people living in poverty—defined as those with incomes of less than US$1 a day in 1985 prices—worldwide had continued to increase. From 1985 to 1990 (the most recent year for which data are available), the number of poor people increased by about 8 percent to 1.1 billion.

Ribe noted that the overall increase in the number of the poor masked significant regional variations. During the 1980s, the proportion of Asia's population that was classified as poor declined steadily. In East Asia, especially rapid progress was made, with the number of poor people actually decreasing despite population growth; in South Asia, the proportion of the population in poverty decreased, while the absolute number of poor people increased. In the Middle East and northern Africa, Latin America, and sub-Saharan Africa, both the absolute number of poor people and the proportion of poor people in the population increased. The low-income developing countries of sub-Saharan Africa, with their high rates of population growth, experienced the most dramatic increases.

***Impact of Country Policies.*** Ribe noted that developing countries' economic and financial policies largely determined their success in reducing poverty. She pointed out that the World Bank had developed a two-part strategy to facilitate poverty reduction in its member countries undertaking structural adjustment. The strategy, initially described in the Bank's *World Development Report 1990*—of which Ribe was a coauthor—encourages member country authorities to adopt policies that (1) favor labor-intensive production wherever possible to maximize employment of the poor and (2) emphasize giving all citizens access to social services. As a supplement to the two-part strategy, "social safety nets" are frequently provided to ensure that the living standards of the most vulnerable members of a society do not fall below an agreed minimum level during economic restructuring.

Ribe commented that "countries that follow this approach ... have been successful in reducing poverty in a sustainable way."

She noted that rapid progress in poverty reduction was generally associated with rapid economic growth, as seen during the 1980s in Indonesia and Malaysia. She suggested that structural adjustment policies designed to achieve both economic efficiency and growth objectives helped to reduce poverty. In contrast, Ribe stated, poverty tended to increase in countries that failed to adjust their economies, as in Peru during the second half of the 1980s. Furthermore, according to Ribe, among countries in which average incomes are increasing, those that "promote the kind of development path that encourages growth in the incomes of the poor at a faster rate are the ones that are more effective in reducing poverty."

The World Bank economist acknowledged that structural adjustment entailed short-term costs and suggested that adjusting countries cope with them by setting up social safety nets and, at the same time, accelerating the positive impacts of adjustment by cor-



READEX
FICHE

recting policy distortions that are especially problematic for the poor, such as below-market prices for agricultural products and excessive government intervention in labor markets (which can restrict the demand for labor). She also suggested that they consider investing more in improving basic infrastructure—for example, rural roads—and the basic social services they provide.

Ribe noted that the most common interventions by developing country governments to provide safety nets for their citizens during periods of structural adjustment included labor-intensive public works projects, nutrition programs, targeted (as opposed to unrestricted) food subsidies, family benefits and pensions, and human resource development programs. She said that, in the World Bank's view, such policies were just as important in alleviating poverty as those that encouraged broadly based economic growth, citing Colombia's reduction of poverty in the 1980s as an example of successful application of the two-part strategy.

***The World Bank's Efforts.*** The composition of the Bank's lending, Ribe observed, has changed sharply in recent years as it has increasingly sought to encourage its members to undertake structural adjustment and reduce poverty. As the proportion of sectoral adjustment loans (also known as policy-based loans) in its portfolio has increased, the share of these that explicitly consider social issues has steadily increased: it went from only about 5 percent of such loans in financial years 1984 and 1986 to more than 50 percent in financial year 1992. Investment lending for human resource development has increased almost fivefold since the early 1990s and now accounts for some 14 percent of the Bank's total lending. Lending for infrastructure has also increased, while lending to support agriculture has declined somewhat, as a proportion of Bank lending.

***Ribe: developing countries' economic and financial policies largely determine their success in reducing poverty.***

The World Bank's adjustment loans are focusing more on poverty by encouraging countries to make "an overall assessment of how the reforms will affect the poor, both in the transition and in the long run." Also, an increasing number of the Bank's adjustment loans stipulate conditions for releasing funds that relate to specific poverty-alleviation measures.

Ribe also discussed the use of social funds—that is, financing mechanisms intended to target the poor and to provide infrastructure or basic social services at the local level by means of a partnership between the government and local citizens' groups, including nongovernmental organizations (NGOs). She observed that although these programs were useful in easing the plight of the poor and in building political support for structural reform programs, they were not an adequate substitute for "more far-reaching restructuring of social sector expenditures in support of poverty reduction and growth." She noted that social funds had been used successfully in Senegal, Guinea-Bissau, Honduras, and Bolivia, and commented that "the most successful ones use creative institutional solutions and have strong public works components."

**The IMF's Approach**

Ehtisham Ahmad, Advisor in the IMF's Fiscal Affairs Department and a coauthor of the World Bank's *World Development Report 1990*, observed that, until rather recently, the IMF was perceived to have an exclusively short-term orientation, dealing primarily with its member countries' balance of payments crises without being concerned about the poor. This changed during the 1980s, however, as the organization became more concerned with structural adjustment, as well as with poverty.

Ahmad noted that the IMF addressed poverty reduction in several ways. First, its consultation missions (staff team visits) to member countries conducted under Article IV (of the IMF's Articles of Agreement, or charter) often discuss with the national authorities the likely impacts of their policy proposals on various groups, including the poor. A mission may also suggest incorporating one or more programs aimed at helping the poor into a member country's structural adjustment program. In some cases, the IMF also provides technical assistance to member countries in areas that enhance their ability to assist the most vulnerable groups in the population—for example, social security reform or the redesign of subsidy programs.

There are many complementarities between the approaches of the IMF and the World Bank to assisting their members, the speaker noted. Both are concerned with achieving what Michel Camdessus, the IMF's Managing Director, has termed "high-quality growth"—growth that is sustainable

over time and does not significantly increase inflation. Ahmad expressed the view that such growth is a necessary condition for effective poverty reduction but added that countries' policies, such as social safety nets, are needed to protect the vulnerable, particularly while structural adjustment is taking place. He added that the staff of the IMF agrees with the World Bank's emphasis on investment in human and physical capital, and in social services, provided that such investments are financed in a noninflationary way.

Ahmad questioned the usefulness of poverty "head counts" based on estimated distributions, noting that the staff of the IMF does not spend much time in counting the number of people falling below arbitrary poverty lines but instead focuses on identifying the potential gainers and losers from policy changes or economic disturbances that are beyond the country's control. Exchange rate adjustments of appropriate relative price changes may directly benefit many of the poor, for example, small farmers. The speaker noted, however, that the poorest net losers may need the protection of a cost-effective safety net. The IMF's basic approach to such situations is to ask how a country can actually provide some support to the people so that the most vulnerable groups will be no worse off than they currently are, or perhaps even be better off.

The IMF pays special attention to the sustainability of financing for proposed safety-net measures, according to Ahmad. Unrestricted subsidies—for example, on food—may be very costly and benefit the well-off more than the poor; consequently, the IMF will frequently examine targeting measures to reduce such programs' budgetary cost, bearing in mind the capabilities of the countries concerned to administer such programs.

*Ahmad: the IMF pays special attention to the sustainability of financing for proposed safety-net measures.*

Although public works projects could generate income for unemployed persons displaced by structural adjustment, they need to be designed to avoid excessive costs and, more important, to avoid undermining incentives for the unemployed to look for and accept regular employment by, for example, paying too-high wages. Their primary purpose, according to Ahmad, should be to create temporary and targeted assistance rather than productive assets; such assets as might be produced should consequently be viewed as a bonus. He pointed out that Chile had used targeted public works successfully in the early 1980s to deal with large-scale unemployment. He also stated that public works projects designed to build, maintain, or improve a country's infrastructure should pay market wages but be subject to standard cost-benefit criteria.

Ahmad noted that the IMF's policy advice often includes suggestions on the composition of government expenditure, including advice to member countries on the impact of, among other things, the public sector wage bill, proposed military expenditures, generalized subsidies, family allowances, pension schemes, and expenditures on education and health care. Although it applies no conditionality (that is, it does not link quantitative performance targets, which are generally set for macroeconomic variables, to the provision of IMF financial assistance) in this area, the IMF seeks to ensure that the country's authorities are aware of the relevant trade-offs involved in making particular expenditures and that they tailor their adjustment programs accordingly.

Ahmad noted that the establishment of social funds to alleviate poverty under structural adjustment was primarily proposed by the World Bank. He cautioned that because of the importance the IMF placed on countries' having transparency in budgeting, "we would be wary about [a country] setting up multiple budgetary processes" to finance social expenditures without providing for rigorous monitoring and evaluation criteria. He also commented that the dearth of household consumption and income data in many developing countries made it difficult for the IMF to analyze the impact of structural adjustment on the poor as thoroughly as it would like, noting that its staff relied on member country authorities or the World Bank or other UN agencies for such information.

### An Alternative View

Richard Webb, Nonresident Senior Fellow at the Brookings Institution and a former governor of the Central Reserve Bank of Peru (1980–85), began his presentation on the relationship between structural adjustment and poverty reduction by noting that "the way in which each of these has been discussed over the past eight to ten years has been a bit confusing." He then attempted to define each term.

Webb noted that the current concept of structural adjustment has two principal components. First, there is the effort to achieve macroeconomic

equilibrium—including both fiscal and balance of payments equilibrium—in a country; he maintained that "this is probably still the major component of what people are referring to when they talk about structural adjustment." Second, he noted that "another huge component...and it has been a growing component,...is everything that has to do with the relative roles of the state and the private sector."

Webb commented that "these are two huge agendas, and they are really quite separable. Now, historically, it has come about that they have been put together." Problems sometimes arise, he noted, when people are "referring to structural adjustment and meaning these two different things, with different relative weights in their own minds that the reader or listener doesn't always know."

The speaker drew another distinction concerning structural adjustment: some people define it as an input, and others as an output. He said that he understood adjustment to be an input—"certain things that a government or a country does, deliberately, as a policy option." The results of the government's acts will be specific economic outcomes—for example, more growth or less growth, more inflation or less inflation—but "whether or not you have more growth or more inflation should not be part of the definition of whether a country is adjusting or not. Much less should we define an adjusting country in terms of whether it has a Bank or Fund adjustment program."

Poverty, Webb noted, "was suddenly put on the development agenda in the 1970s . . . as a result of a . . . sudden discovery that growth by itself was not satisfactory, that the benefits of growth were not being distributed to the poorest rapidly enough." Poverty alleviation consequently came to be thought of as what could be done, over and above achieving economic growth, to ease the plight of the poor. The question then was: "To what extent can we modify the way in which we have been growing so that the benefits of that growth go to the poor more quickly?"

*Webb: a growth strategy alone may not constitute an adequate poverty-reduction strategy.*

More recently, Webb observed, this view of poverty alleviation as something that goes beyond achieving economic growth seems to have fallen out of favor. Still, since each view has many adherents, today's discussions of poverty alleviation "often become confused as to whether what one is talking about is the poverty reduction that will inevitably come about where there's growth, or whether one is talking about how one is changing the growth process to make poverty reduction come about more directly."

The speaker pointed out that a recent report about what the World Bank is doing to alleviate poverty in the world's various regions stated that its poverty-reduction strategy for Africa consisted simply of promoting economic growth there. He commented that such a statement "is read without...lifting any eyebrows today. Ten years ago, it would have been read as saying 'The Bank doesn't have a poverty-reduction strategy for Africa. What it has is a growth strategy.'" Webb acknowledged that growth would reduce poverty eventually but questioned whether a growth strategy alone was adequate.

During the 1980s, Webb observed, donor countries provided more aid than they had during the 1970s. He asserted, however, that the way this aid was designed "may not always have been appropriate from the point of view of a long-run war on poverty." He suggested that because the aid had been designed primarily to support structural adjustment programs, the aid response to poverty might have become "biased toward the more visible, adjustment-related aspects of poverty." He cited social funds as a prime example of an aid-financed poverty-alleviation measure that attracted a good deal of donor country government and media attention but did relatively little to reduce the incidence of poverty.

At the same time, however, Webb maintained that the increase in the absolute numbers of poor people during the 1980s may have made it easier for developing country governments to talk about such poverty-alleviation measures as safety nets and the redesigning of social services, "making them focus more on the very poor and making the less poor pay for a larger proportion of what they're receiving." He suggested that an opening had been created for political reformers and reformist groups in governments to address poverty issues more thoroughly.

Webb expressed the view that one effect of the economic instability of the 1980s was "an enormous centralization of power" in developing countries, with both legislatures and the media losing power to executives, such as presidents and ministers. He noted that, in such emergency situations, an executive who is more pro-poor than the

legislature or other major holders of power may be able to change the country's allocation of resources in favor of the poor. He cautioned, however, that "many of these favorable responses, from the point of view of the poor, that are associated with the political economy of these crises may not be that permanent." Webb suggested that as developing countries' economies returned to normal, the power of executives was likely to decline, while well-organized groups regained power and attempted to win back government benefits they had lost in recent years.

Noting that social service expenditures have "tended to be the most redistributive component in the public finances," Webb asserted that it had been "a major disaster, from the point of view of poverty," that social service expenditures fell during the 1980s in many developing countries, but he acknowledged that "there's a lot of effort going on to ameliorate that, to compensate by redesigning those social services."

Commenting on the deregulation, privatization, and liberalization component of structural adjustment he had identified earlier, the speaker asserted that it "will translate into some degree of concentration of income. Some of the elements in that package may well be pro-poor in a first direct effect. At the same time, . . . the package as a whole will mean faster growth but a more concentrated pattern of growth." He added that it was difficult to say whether pursuing structural adjustment, including these policy changes, would increase or decrease the incidence of poverty in adjusting countries.

Paul Gleason,
Assistant Editor, *IMF Survey*

**Photo Credits:** Denio Zara and Padraic Hughes for the IMF.

# Market Forces Alone Can't Control State Borrowing

Although market discipline has a role to play in controlling unsustainable borrowing by governments, other mechanisms of control—for example, multilateral surveillance and binding fiscal controls—may also be necessary, according to Timothy Lane of the IMF. Lane, a Senior Economist in the Research Department, was speaking at a seminar entitled "Can Market Forces Discipline Government Borrowing?" held at the IMF Visitors' Center on May 19. Chaired by David Folkerts-Landau, Chief of the Capital Markets Division in the Research Department, the seminar was part of the regular Economic Forum series.

The classic mechanism through which market discipline is supposed to work, according to Lane, is that if a government's borrowing reaches levels considered unsustainable by the market, interest rates facing that government rise relative to those facing other borrowers. Eventually, the government is cut off from further financing.

*Lane: In practice, market discipline often fails.*

In practice, however, market discipline can fail, Lane noted, citing the following examples:

- The financial crisis associated with the savings and loan industry in the United States, during which deposits continued to flow to institutions that followed unsustainable lending practices;
- The persistence of loss-making state-owned enterprises in Eastern Europe and the states of the former Soviet Union; and
- The sovereign debt crisis of the 1980s, which partly represented the inability of markets to discipline banks and debtor countries.

Lane pointed out that, for market discipline to work, certain conditions need to be met:

- Financial markets should be open; lenders should have alternatives to lending to a particular borrower.
- There should be adequate and transparent information about the behavior of borrowers. In particular, borrowers should not be able to hide the magnitude of their liabilities through off-balance sheet borrowing or by using innovative borrowing instruments without the full knowledge of lenders.
- There should be no bailouts in the case of defaults by borrowers.
- Borrowers should respond rationally to market signals (by reducing borrowing when faced with higher interest rates) in time to avoid a crisis.

Of these conditions, the "no bailout" provision is perhaps the most crucial, according to Lane, and its failure is often the most important reason for the breakdown of market disci-

pline. What makes this condition so hard to meet is the problem of credibility: not only must outside agencies promise not to carry out a bailout, but market participants must believe they will keep this promise. This can be difficult, especially if the borrower is perceived as being "too big to fail."

With regard to the European Community (EC), Lane noted that, although the Maastricht Treaty on European economic and monetary union (EMU) explicitly provides for an independent central bank and stipulates that governments will not be bailed out, "if a major country were on the verge of bankruptcy, the pressure to bail out its government could be overwhelming."

**Evidence**

The evidence on how well market discipline works is mixed, according to Lane. He pointed out that the experience of federal unions in Australia, Canada, Germany, and the United States suggests no particular pattern. There is no discernible relationship between the nature of constraints on borrowing by states and the degree of "fiscally responsible" behavior; tough constraints don't necessarily lead to smaller deficits. Lane added, however, that the existence of divergent interest rate spreads facing state governments within federal unions suggests that markets do discriminate between different borrowers, although not strongly enough to check excessive borrowing.

Lane noted that the evidence from the sovereign debt crisis of the 1980s suggests that "market discipline came too late and was too harsh": interest rate spreads facing heavily indebted countries were very narrow in the 1970s and then suddenly widened immediately before the crisis erupted in 1982. Through the rest of the 1980s, many debtor countries lost access to international capital markets.

Lane attributed the failure of market discipline in this case partly to poor information—countries' borrowing was often not adequately reported—but more importantly to the existence of generous bailout provisions. Deposit insurance emboldened many banks to continue making questionable loans. The "herd instinct" among banks making similar types of loans made them all the more confident that bailouts would, if necessary, be provided.

In recent years, however, market discipline has functioned more effectively with respect to sovereign debt, according to Lane: movements in secondary market prices on sovereign loans suggest that the markets do take account of the fiscal behavior of governments. These movements also point to greater efficiency in the pricing of risk.

Lane concluded that although market discipline does operate, it should be strengthened by opening financial markets, improving the quality and the transparency of information available to lenders, checking the scope of bailouts, and, to the extent possible, reinforcing the credibility of the "no bailout" provisions in force. But at the same time, other elements of fiscal control—for example, multilateral surveillance and the imposition of fiscal limits—might be needed to check unsustainable borrowing by governments. Lane stressed, however, that it is also important for governments to be responsive to market indicators of the sustainability of their fiscal positions. If they are not, neither market forces, nor surveillance, nor legal limits can effectively check excessive government borrowing.

*Kenen: excessive government borrowing within the EC can create problems for all members.*

**Market Discipline and EMU**

Peter Kenen, Professor of Economics and International Finance at Princeton University, focused on the problem of excessive government borrowing in the context of the Maastricht Treaty on EMU. He pointed out that the treaty does not impose binding fiscal limits in a strict sense; it requires only that government borrowing should not, with some exceptions, exceed certain "reference values." Ultimately, what would constitute an "excessive" deficit or level of debt would be a political decision of the EC Council of Ministers. Thus, he suggested that "the 'excessive deficit' provision may not be any more credible—and may even be less credible—than the 'no bailout' provisions in the treaty."

Excessive borrowing by national governments within the EC can create two types of problems, according to Kenen. It can impair future borrowing by those governments, to the possible detriment of the citizens of the countries concerned. And it can cause disruptions throughout the EC. For instance, it can lead to an inappropriate level of aggregate demand, which could force a future European central bank to tighten monetary policy. It could also cause the future common currency of the EC to appreciate in real terms, which could interfere with the conduct of monetary, trade, and other policies.

Excessive borrowing by an EC government could also threaten the independence of a future European central bank, according to Kenen. One way in which this could happen is if other governments put pressure on the bank to bail out the fiscally beleaguered government. (Kenen noted that although the Maastricht Treaty contains provisions to guard against this, one cannot rule out the possibility.) A more plausible threat might come from the market: when the market perceives that a particular government is facing fiscal problems, the interest rates on the debt instruments of that government could rise sharply. At the same time, the debt instruments issued by that government in the past could decline in value, which could threaten the solvency of financial institutions holding these instruments. This, too, could prompt the European central bank to bail out the government concerned.

Kenen noted that regulators have generally tended, in times of crisis, to assist imprudent borrowers. This is essentially what happened during the sovereign debt crisis. It is also what is likely to happen in the event of a crisis caused by excessive borrowing by an EC government. The justification for assisting borrowers is usually that the alternative—allowing some financial institutions to fail and paying out deposit insurance, for example—is too costly. Kenen suggested, however, that in the long run this alternative might well prove cheaper, not least because it would enhance the credibility of "no bailout" provisions.

*Canzoneri: the orthodox model of market discipline is inadequate.*

### Theoretical Problems

Matthew Canzoneri, Professor of Economics at Georgetown University, discussed a number of theoretical and empirical inadequacies in the standard analysis of market discipline.

With regard to theory, Canzoneri observed that in the orthodox model of market discipline, the probability of default by a borrower is assumed to depend on the level of debt and the level of interest payments on that debt. This formulation omits much that is relevant, he said. He pointed out, for instance, that there are two different types of default. One type would stem from nonpayment by a borrower. The other would result from a surprise inflation created by a central bank. Correspondingly, the market would impose two types of interest rate premia. If it expected nonpayment, it would put a real interest rate premium on a particular borrower. But if it wanted to guard against a surprise inflation, it would impose a nominal premium on all borrowers issuing debt in the currency concerned.

Canzoneri contended that, of these two types of premia, only the first would be efficient in disciplining borrowers. Which type is the market likely to resort to in reality? According to Canzoneri, this would depend partly on "the type of default the government would prefer to have." Political considerations would play a role here: a default stemming from nonpayment would hit one particular group, while that resulting from a surprise inflation would hit another. Much would also depend on the degree of independence of the central bank and the extent to which the central bank's constituency differs from that of the government.

With regard to the conditions needed for market discipline to work, Canzoneri thought the "no bailout" provision to be particularly problematic. "All central banks are creatures of government," he pointed out. And although some central banks may enjoy a degree of independence, "governments always exert some control, no matter what the bank's charter may say."

The strength of market signals and the adequacy of fiscally troubled governments' responses to these signals are also matters for some doubt, according to Canzoneri. This is particularly borne out by evidence from provincial and state governments in Canada and the United States, he said.

Thus, all in all, Canzoneri concluded, whether market discipline is effective in controlling unsustainable borrowing "is still an open question."

Vikram R. Khanna
Assistant Editor, *IMF Survey*

**SDR Rates**

| Week Beginning | Rate of Interest and Charges (percent) |
|---|---|
| June 7 | 4.73 |
| June 14 | 4.68 |

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rate call (202) 623-7171.

Data: IMF Treasurer's Department

## IMF ACTIVITIES

# Camdessus Briefs OECD Council on Global Outlook and Key Policy Changes

*Following is the text of a statement given by IMF Managing Director Michel Camdessus at the ministerial level meeting of the Council of the Organization for Economic Cooperation and Development (OECD) in Paris on June 2 and 3, 1993:*

I should like to focus briefly on the main features of the outlook for the world economy and on the key policy challenges we face. I shall do so on the basis of the Declaration on Cooperation for Sustained Global Expansion adopted by the Interim Committee during its meeting at the end of April. The slightly unusual language of the Declaration reflects the deep concern of the IMF's universal membership about the continuing weakness in global economic performance and of their determination to address those challenges through a strengthened cooperative effort.

*Camdessus: industrial countries have failed to implement key fiscal and structural measures.*

The Fund's most recent projections are similar to those of the OECD in pointing to continuing modest recovery of growth in the OECD area during 1993–94 but to further increases in unemployment in many countries. Meanwhile, inflation in most industrial countries, despite some recent unfavorable indications, seems likely to remain well-contained. For most of Europe, zero or even negative growth is now projected for 1993, while in Japan there are only limited signs, so far, of the expected pickup in growth. Gradual expansion is expected in the United States, Canada, and the United Kingdom, slowed partly, of course, by the weak performance of key trading partners. Although some recovery is expected to take hold more broadly in the industrial countries next year, this prospect is still very fragile, and the moderate rates of expansion projected carry with them a continuing risk of systemic instability associated with trade disputes and exchange market tension.

Output in the developing countries is projected to expand by 5 percent in 1993 and 1994, only slightly less than in 1992, which saw the highest growth rate in more than a decade. This is an impressive result, especially given the weakness of activity in the industrial countries; but of course progress in the developing world remains far from uniform.

Among the formerly centrally planned economies, output has begun to recover and inflationary pressures have abated in some of the central European countries. In Russia and most of the other countries of the former Soviet Union, however, stabilization efforts thus far have not been adequate to contain inflation and secure the reform process; output in these countries has still not bottomed out.

I now turn to policies. The present difficulties in the industrial world are attributable not to any defect in the medium-term strategy but rather, to a large extent, to the failure to implement key elements of the strategy in the fiscal and structural areas. While there has been substantial progress in lowering inflation, inadequate fiscal consolidation and structural rigidities have left countries in a weak position to cope with sluggish activity. Large budget deficits have contributed to high real long-term interest rates and have also been an important factor in the recent turbulence in European currency markets. And labor market policies have been inadequate to address persistently high structural unemployment, especially in Europe.

In recent months, however, there have been a number of important economic policy initiatives in the major countries. If these efforts are sustained, deepened, and coordinated so that they reinforce each other, they may become the basis for a recovery in global economic performance.

In Europe, exchange market tensions have eased, and interest rates have been falling and should continue to do so as evidence accumulates of waning inflationary pressures. Several industrial countries have announced programs to reduce excessive structural budget deficits, and these efforts have been favorably received in financial markets. The additional fiscal measures announced by the Japanese authorities in April and the European growth initiative should help to restore confidence and promote economic recovery. The steadfast implementation and strengthening of deficit reduction plans would lay the foundation for stronger growth and for an increase in

living standards over the medium term. Meanwhile, many developing countries are continuing to reap the fruits of sustained stabilization and reform efforts. Also, efforts to enhance assistance to the formerly centrally planned economies are moving forward. The IMF's new systemic transformation facility will enhance the ability of the Fund to play its role fully in promoting the historic transformation of these economies. The first loan under this facility (to Kyrgyzstan) has already been approved, and I am optimistic that a number of other members, including Russia, will soon qualify for similar support.

The Interim Committee invited member countries and the multilateral institutions to strengthen their efforts in carrying out and supporting mutually reinforcing policies along the lines I have just described. Let me say here that the Secretary-General's report on the OECD's study of unemployment in the industrial countries adds important emphasis to the need for further action. The report appropriately describes certain aspects of the current situation as "disturbing, perhaps alarming." It makes it even more clear that it is of paramount importance to adhere to the medium-term strategy, and in particular to reduce the public sector's absorption of private saving and simultaneously to restore the flexibility of labor markets through wide-ranging structural reforms.

Finally, I turn to the policy item that was appropriately listed first by the Interim Committee—the Uruguay Round [of multilateral trade negotiations]. Determined efforts to bring the Round to an early and successful conclusion and to reverse the rise in protectionist barriers must be a central element of any cooperative effort to strengthen growth worldwide. The delay in completing the Round is not only depriving the world of the benefits of further liberalization but is also adding to trade tensions and damaging economic confidence and the strength of the recovery. The recent, largely cyclical, widening of current account imbalances among the major industrial countries threatens to fuel protectionist sentiment and adds to the urgency of completing the Round. At the same time, to reduce the large structural external imbalances, it is necessary to tackle their root causes by carrying out fiscal consolidation in the deficit countries and by maintaining adequate growth in domestic demand in surplus countries. Let me emphasize also that measures by industrial countries to open their markets are crucial to support the efforts of developing countries and economies in transition in implementing outward-oriented reform strategies. In short, it is essential that the commitment made by all countries concerned not to spare any effort to speed up negotiations to conclude the Round very soon be honored.

In sum, it is the clear view of the IMF that the challenges presently confronting the world economy call for us to join forces in a global, cooperative effort to bolster confidence and strengthen prospects for sustainable growth. I am sure that this meeting will make an important contribution to this cooperative effort.

## *From the Executive Board . . .*

**Tajikistan: New IMF Member.** The Republic of Tajikistan today became a member of the IMF. The IMF's Articles of Agreement were signed in Washington D.C. on behalf of Tajikistan by Abulmajid Dostiev, Vice President and First Deputy Chairman of the Supreme Soviet of the Republic of Tajikistan. Tajikistan's initial quota in the IMF is SDR 40 million (about $57.7 million). With the admission of Tajikistan, membership in the IMF now totals 177 countries, and the total of members' quotas is SDR 144,606.2 million (about $206,672.63 million).

Press Release No. 93/18, April 27

**Lao P.D.R.: Enhanced Structural Adjustment Facility.** The IMF has approved a three-year loan for the Lao People's Democratic Republic, equivalent to SDR 35.19 million (about $50 million), under the enhanced structural adjustment facility (ESAF), to support its economic and financial program for 1993–95. The Lao P.D.R. may draw up to SDR 11.73 million (about $17 million) under the first annual arrangement. The ESAF arrangement follows an earlier three-year loan approved in 1989 under the IMF's structural adjustment facility (SAF) equivalent to SDR 20.51 million (about $29 million), which supported the country's economic program.

The Lao P.D.R.'s adjustment efforts under the SAF program yielded considerable success. The growth of output responded buoyantly, inflation declined dramatically, the external position strengthened, and significant strides were made in transforming the centrally planned economy to one based on market mechanisms. In the final year of the program, real GDP grew by 7 percent, the inflation rate declined to 6 percent by the end of the year, and the external position strengthened.

The objectives of the 1993–95 economic program, supported by the ESAF, are to sustain average real GDP growth at 6–7 percent; reduce the average annual rate of inflation to the rate prevailing in the country's major trading partners (about 5 percent); contain the annual average external current account deficit, excluding official transfers, to about 9½ percent of GDP; and increase gross official reserves to the equivalent of about three months of imports by the end of 1995. To these ends, the Lao authorities will intensify their efforts to reduce

fiscal imbalances, redress structural weaknesses, and strengthen institution building. In the fiscal field, the Government's medium-term objectives include attaining an overall budget deficit, excluding grants, of 8 percent of GDP by 1995. On the revenue side, the authorities aim at increasing the tax-to-GDP ratio by about 3 percentage points through tax measures and intensified collection efforts. They will pursue cautious monetary policies, with greater reliance on indirect policy instruments. Structural policies will include an acceleration of privatization, trade and tariff reform, and strengthening the banking sector.

The program for 1993, supported by the first annual ESAF loan, aims at maintaining real GDP growth of 7 percent, limiting the inflation rate to an annual average of 7 percent, and holding the external current account deficit, excluding official transfers, to about 10 percent of GDP. To achieve these objectives, the budget deficit will be reduced through significant new revenue measures. Monetary policy is designed to support the program's overall objectives, while allowing a significant expansion of credit to the private sector.

Structural policies under the program include the privatization of at least 25 enterprises in 1993, the removal of quantitative restrictions on imports, and completion of the recapitalization of state banks.

The program is also expected to have a beneficial impact on the poor by facilitating broadly based economic growth. The Government aims to minimize any short-term adverse effects through severance payments to mitigate the impact of planned civil service retrenchment. At the same time, the authorities attach high priority to environmental protection and appropriate natural resource management.

The Lao P.D.R. joined the IMF on July 5, 1961. Its quota is SDR 39.1 million (about $56 million), and its outstanding financial obligations to the IMF currently total the equivalent of SDR 20.5 million (about $29 million).

Press Release No. 93/22, June 4

# Environment Seminar Explores Linkages

*(continued from front page)* central focus of its work. Indeed, one speaker called for a "paradigm shift" in the IMF's orientation.

For their part, IMF staff stressed the need for the Fund to fulfill its mandate—to help its members adopt policies to stabilize their economies and promote sustainable growth. However, they acknowledged scope for greater awareness of environmental issues. For policy input in this area, the IMF staff suggested greater reliance on institutions with expertise in the environment. The World Bank, in particular, had specialized knowledge of the sectoral and multidisciplinary issues that were relevant in addressing environmental problems, they explained.

### Key Themes of the Seminar

In their summary of the main themes and lessons of the seminar, Margaret Kelly and Ved Gandhi, Assistant Director in the IMF's Fiscal Affairs Department, pointed out that

- Sound macroeconomic policies and economic stabilization are essential to alleviate poverty and protect the environment. "Managed" or orderly adjustment—often with the IMF's support—is better than "unmanaged" or disorderly adjustment.
- The linkages between macroeconomic policy and the environment, which run in both directions, are complex. One can't generalize about them because they differ from case to case. They depend partly on the structure of the economy: resource-based and commodity-dependent economies will, for instance, have altogether different types of linkages than will more broadly based economies.
- Analyzing the linkages between macroeconomic policy and the environment requires a great deal of information that isn't readily available. Moreover, the analysis can't be done by economists alone, because the issues involved are multidisciplinary. Still, all parties who can contribute meaningfully to the analysis—including IMF staff—should do so.
- The IMF should help its members minimize the damaging environmental impact of macroeconomic policies if and when there is such an impact.
- Poverty and the environment are linked in that the poor are more likely to resort to activities that can degrade the environment. Also, the poorer the country, the less budgetary support there is likely to be for environmental protection. Thus, social expenditures, including spending to promote more efficient use of human resources, are an important part of fiscal strategies aimed at macroeconomic stability and at sustainable development.

*Kelly: the links between macroeconomic policy and the environment are complex and indirect.*

• Environmentally adjusted national accounts need to be developed to reflect the costs of environmental degradation and to enable policymakers to take these costs into account when they formulate policies.

• Subsidies that have negative distributional and environmental effects should be eliminated.

• Certain environmental ("green") taxes and resource user charges can be useful in some adjustment programs, especially in resource-dependent economies.

• The exchange rate is a "blunt" instrument for dealing with market and institutional failures, which are often at the root of environmental problems.

• Wider discussion of the possible consequences of macroeconomic policy changes for the poor and the environment can greatly improve the formulation of such policies. Local NGOs can strengthen their policy input by undertaking rigorous country-specific analysis to provide the data needed to back up macroeconomic policy recommendations.

• Good governance—notably governance that is sensitive and committed to the twin aims of macroeconomic stability and environmental protection—is critical.

*Robert Repetto, Vice President of the World Resources Institute, served as co-chair for the seminar.*

**Summary of Discussions**

Seminar participants recognized that environmental problems stem from various market failures ("externalities") and policy failures. Market failures refer to the inability of the free market to price scarce environmental resources according to their value to individuals and to society, while policy failures refer to government policies that, for example, subsidize environmentally damaging pesticides or fertilizers. Ideally, market and policy failures should be addressed by policy changes that internalize social costs and eliminate distortions.

Because we do not live in a "first-best world," macroeconomic policies could intensify environmental damage, although it is difficult to generalize in this regard. But given the possibility, NGOs suggested that the IMF should take environmental considerations into account when it recommends specific policies. The IMF could thus help its members design and adopt policies to *minimize* environmental damage or, better still, look for opportunities to do

## The IMF and the Environment

Economic activities and the natural environment influence each other in diverse and complex ways, many of which have only recently begun to be systematically analyzed. Meanwhile, public concern about the environment and how it is affected by economic policies has mounted.

In early 1991, the IMF's Executive Board informally considered the extent to which the IMF should address environmental issues. It concluded that the staff should be mindful of the interplay between economic policies, economic activity, and environmental change. This would help the Fund to avoid policies that could have undesirable environmental consequences while ensuring that the thrust of its actions promotes balance of payments viability and sustainable growth. The Board further agreed that the IMF should act in ways that are consistent with its mandate, size, and structure.

To these ends, the IMF will devote modest additional resources to tapping the expertise of institutions with environmental competence and responsibilities, including the World Bank, the Organization for Economic Cooperation and Development, and the United Nations Environment Program rather than undertake fundamental research in this area. Such expertise would help Fund missions to member countries to conduct more informed discussions with the governments faced with macroeconomic policy choices that have major environmental implications. The IMF, however, would impose no environmental conditionality.

The Board stressed that the IMF work on environmental issues should be evenhanded and universal, spanning countries in all regions and at all stages of development.

something *positive* for the environment. They added that this could be done flexibly and within the constraints associated with maintaining or achieving macroeconomic stability. Some NGO participants thought that slower adjustment might relieve pressure on the environment, especially in resource-based countries.

Environmentalists argued that macroeconomic policy instruments should be designed to give *explicit* recognition to the fundamental importance of environmental goals in contributing to "sustainable development," broadly defined. They thought that IMF economists should look at the resource base of an economy, which is vital to its long-term productive capacity, and determine how environmental damage affects that capacity.

IMF staff agreed that sustainable development required concern not only for growth and financial stability but also for possible adverse effects of economic adjustment on the poor and on the environment. As the IMF's Managing Director has repeatedly emphasized, what's needed is not just growth, but "high-quality growth." Staff noted that the IMF has come a long way in recent years in recognizing the impact of macroeconomic policies on the poor and in helping countries design and put in place social safety nets.

At the same time, IMF staff expressed concern that integrating longer term environmental goals could undermine the Fund's effectiveness in fulfilling its essential mandate, especially given its limited resources. They noted that a major change in the IMF's responsibilities toward integrating environmental issues into its operational work must come at the request of the Executive Board.

A few NGO participants asked the Fund to enhance its mandate in light of the changing requirements of sustainable development. IMF staff replied

*Charles Abugre of the Agency for Cooperation and Research in Development was one of the NGO participants.*

that other institutions, especially the World Bank, were far better suited to deal actively with environmental concerns and that it made little sense for the Fund to duplicate the Bank's work. They stressed the close collaboration between the IMF and World Bank.

*Gandhi : the IMF is likely to work with the Commission on Sustainable Development.*

A number of global issues were raised during the seminar, including the problem of cross-boundary environmental effects. An NGO participant cited the need to distinguish between local and global effects, and one environmentalist suggested that developing countries should not have to pay for damage to the global environment that he felt was caused mainly by industrial countries.

Some participants were concerned about the impact of industrial countries' trade policies on developing countries and asked if the IMF examined issues such as the implications of industrial countries' agricultural policies for the sustainability of agriculture in developing countries. In response, IMF staff noted that trade issues—including improved access for developing countries to industrial country markets—were addressed in the context of IMF surveillance of its members' policies.

### Key Macroeconomic Policy Elements

In separate sessions on macroeconomic policy instruments, participants focused on environmental accounting, subsidy and pricing policies, tax and expenditure policies, and exchange rate policies.

*Environmental Accounting.* Seminar participants broadly agreed that current national accounting systems are deficient because they don't account for environmental consumption. Environmentalists urged the IMF to take the initiative in developing quickly a natural resource accounting system. IMF staff explained that the Fund is supporting the efforts of the United Nations in this area, and that the IMF would use environmentally adjusted accounts when these are developed. One NGO participant proposed an accounting framework that was simple and feasible

for use by developing countries.

*Subsidy and Pricing Policy.* Staff participants explained that Fund advice on subsidies was consistent with a country's overall macroeconomic objectives. Where subsidies help meet worthwhile public policy goals, they should be transparent, targeted, and, when possible, transitory. In other cases—where they have negative distributional and harmful environmental consequences—they should be eliminated. An NGO participant cautioned that if subsidies are removed, it will be important to "internalize externalities" (that is, to ensure that adverse spillovers are accounted for and paid for) to ensure that the wasteful use of natural resources is not made more attractive. Several NGOs urged elimination of inappropriate subsidies that benefit mainly middle- and upper-income groups. IMF staff noted that this issue is addressed in its policy advice to member countries.

*Tax and Expenditure Policy.* On tax policy, IMF staff explained that environmental taxes may be difficult to implement in developing countries for several reasons, including administrative and political ones. But in countries highly dependent on natural resource extraction, such taxes may help achieve both revenue and environmental objectives.

An NGO participant urged that tax policy be used to encourage intergenerational equity and that, toward this end, the Fund should propose both preventive and curative measures. The IMF staff noted that the Fund actively promotes appropriate preventive policies in the course of its policy surveillance. On expenditure policy, an NGO

## Currency Units per SDR

| Currency | 4 | 5 | MAY 6 | 7 | 10 | 11 | 12 | 13 | 14 | 17 |
|---|---|---|---|---|---|---|---|---|---|---|
| Deutsche mark | 2.24888 | 2.24894 | 2.25028 | 2.24697 | 2.25829 | 2.27226 | 2.27091 | 2.27286 | 2.26901 | 2.27007 |
| French franc | 7.56628 | 7.56663 | 7.59366 | 7.57906 | 7.60658 | 7.65661 | 7.65641 | 7.67135 | 7.66507 | 7.65197 |
| Japanese yen | ... | 157.216 | 156.958 | 156.96 | 156.414 | 157.071 | 157.091 | 157.161 | 156.231 | 156.673 |
| Pound sterling | 0.906847 | 0.908061 | 0.907611 | 0.903801 | 0.915363 | 0.917231 | 0.916888 | 0.921439 | 0.921087 | 0.917889 |
| U.S. dollar | 1.42947 | 1.42729 | 1.42495 | 1.42665 | 1.41806 | 1.41061 | 1.41015 | 1.40868 | 1.41069 | 1.41402 |
| Argentine peso | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Australian dollar | 2.03433 | 2.03695 | 2.02809 | 2.02333 | 2.00492 | 2.01095 | 2.00903 | 2.01614 | 2.00486 | 2.01628 |
| Austrian schilling | 15.8183 | 15.8001 | 15.844 | 15.8073 | 15.8612 | 15.9079 | 15.9063 | 15.9002 | 15.86 | 15.9015 |
| Bahrain dinar | 0.536363 | 0.536861 | 0.535781 | 0.53642 | 0.533186 | 0.530369 | 0.530216 | 0.529739 | 0.530495 | 0.531672 |
| Bangladesh taka | 56.7735 | 56.8081 | 56.713 | 56.7607 | 56.4389 | 56.1433 | 56.124 | 56.0734 | 56.1534 | 56.278 |
| Belgian franc | 46.2436 | 46.1157 | 46.3144 | 46.227 | 46.2968 | 46.7758 | 46.7641 | 46.8003 | 46.8478 | 46.7015 |
| Brazilian cruzeiro | 46894.9 | 47196.2 | 47068.8 | 48342.7 | 48842.3 | 48978.5 | 49580.4 | 50120.9 | 50802.6 | 51634.2 |
| Canadian dollar | 1.8149 | 1.82094 | 1.81054 | 1.81319 | 1.79865 | 1.79835 | 1.79805 | 1.7928 | 1.79719 | 1.80344 |
| Colombian peso | 1207.26 | 1208.86 | 1207.15 | 1209.26 | 1202.05 | 1196.94 | 1197.15 | 1196.7 | 1198 | 1202.36 |
| Danish krone | 8.94015 | 8.91726 | 8.86013 | ... | 8.86432 | 8.77258 | 8.7669 | 8.7569 | 8.75976 | 8.75875 |
| Finnish markka | 7.73475 | 7.69495 | 7.70642 | 7.69408 | 7.70599 | 7.7994 | 7.81928 | 7.81027 | 7.82983 | 7.82236 |
| Greek drachma | 306.864 | 306.212 | 306.136 | 305.845 | 306.249 | 306.211 | 306.506 | 306.193 | 306.491 | 307.504 |
| Indian rupee | 44.6626 | ... | ... | 44.6827 | 44.4143 | 44.1909 | 44.18 | 44.1381 | 44.1891 | 44.2871 |
| Indonesian rupiah | 2968.5 | 2960.2 | 2955.36 | 2958.67 | 2942.52 | 2928.43 | 2928.06 | 2926.24 | 2930.42 | 2935.51 |
| Iranian rial | 2346.12 | 2346.46 | 2342.62 | 2946.41 | 2331.32 | 2319.04 | 2309.83 | 2307.75 | ... | 2316.16 |
| Iraqi dinar | 0.443429 | 0.443684 | 0.442956 | 0.442485 | 0.440821 | 0.439496 | 0.438355 | 0.437961 | 0.438588 | 0.439588 |
| Irish pound | 0.921373 | 0.921909 | 0.923750 | 0.92292 | 0.92762 | 0.934674 | 0.933827 | 0.93578 | 0.933831 | 0.961832 |
| Italian lira | 2064.83 | 2062.19 | 2068.04 | 2067.14 | 2070.58 | 2101.33 | 2099.25 | 2103.27 | 2094.13 | 2076.13 |
| Korean won | 1136.61 | 1137.26 | 1136.4 | 1137.47 | 1132.05 | 1127.76 | 1128.54 | 1128.26 | 1129.14 | 1133.62 |
| Kuwaiti dinar | 0.426296 | 0.426173 | 0.427471 | ... | 0.425879 | 0.424461 | 0.424342 | 0.42396 | ... | 0.425291 |
| Libyan dinar | 0.414296 | 0.414296 | 0.414296 | 0.414296 | 0.414296 | 0.414296 | 0.414296 | 0.414296 | 0.414296 | 0.414296 |
| Malaysian ringgit | 3.65847 | ... | ... | 3.66078 | 3.63679 | 3.62781 | 3.62096 | 3.61772 | 3.62367 | 3.63084 |
| Maltese lira | 0.522976 | 0.522186 | 0.520397 | 0.520633 | 0.520626 | 0.52462 | 0.524481 | 0.524393 | 0.525988 | 0.525238 |
| Nepalese rupee | 70.5675 | 70.605 | 70.4923 | 70.5764 | 70.1584 | 69.7829 | 69.7801 | 69.6973 | 69.7987 | 69.9516 |
| Netherlands guilder | 2.52186 | 2.52288 | 2.52772 | 2.52408 | 2.53411 | 2.54897 | 2.54794 | 2.55176 | ... | 2.54536 |
| New Zealand dollar | 2.63575 | 2.63639 | 2.62098 | 2.61435 | 2.59389 | 2.59389 | 2.60079 | 2.59845 | 2.59593 | 2.60074 |
| Norwegian krone | 9.50742 | 9.49076 | 9.51936 | 9.49576 | 9.51461 | 9.61683 | 9.61561 | 9.61631 | 9.64202 | ... |
| Omani rial | 0.548478 | 0.548788 | 0.547988 | 0.548647 | 0.546262 | 0.54236 | 0.542269 | 0.541714 | 0.542467 | 0.543691 |
| Pakistan rupee | 38.182 | 38.204 | 38.1414 | 38.1899 | 37.9575 | 37.7575 | 37.8442 | 37.8101 | 37.8941 | 37.9805 |
| Portuguese escudo | 208.273 | 208.04 | 208.72 | 208.602 | 209.049 | 211.015 | 211.47 | ... | 217.501 | 216.814 |
| Qatar riyal | 5.19255 | 5.19534 | 5.18992 | 5.19301 | 5.16191 | 5.13462 | 5.13065 | 5.12932 | 5.13584 | 5.14703 |
| Saudi Arabian riyal | 5.34213 | 5.3492 | 5.33944 | 5.3428 | 5.31071 | 5.28279 | 5.28101 | 5.27628 | 5.28378 | 5.2955 |
| Singapore dollar | 2.30147 | 2.30151 | ... | 2.29816 | 2.29586 | 2.27743 | 2.27699 | 2.27482 | 2.2824 | 2.28285 |
| South African rand | 4.50406 | 4.50991 | 4.50213 | 4.50037 | 4.48931 | 4.46927 | 4.4678 | 4.47953 | 4.48582 | 4.48022 |
| Spanish peseta | 164.244 | 164.609 | 164.867 | 164.782 | 165.618 | 166.819 | 166.807 | ... | 173.167 | 173.217 |
| Sri Lanka rupee | 48.4706 | ... | ... | ... | 48.0676 | 47.7516 | 47.7577 | 47.6967 | 47.8368 | 47.9861 |
| Swedish krone | ... | ... | ... | 10.5846 | 10.5642 | 10.4738 | 10.4448 | 10.4229 | ... | 10.3781 |
| Swiss franc | 2.09873 | 2.01491 | 2.09314 | 2.02238 | 2.03707 | 2.0585 | 2.06068 | 2.08415 | 2.09373 | 2.0833 |
| Thai baht | 35.9328 | ... | 35.8802 | 35.8945 | 35.7214 | 35.6036 | 35.5922 | 35.5868 | 35.6573 | 35.6757 |
| Trinidad and Tobago dollar | 9.19431 | 9.14955 | 9.10584 | 9.13798 | 9.12173 | 9.03187 | 9.03618 | ... | 9.07684 | 9.08368 |
| U.A.E. dirham | 5.23857 | 5.23938 | 5.23099 | 5.23723 | 5.20577 | 5.17936 | 5.172 | 5.17888 | 5.17838 | 5.19087 |
| Venezuelan bolivar | 122.976 | 122.918 | 122.831 | 123.12 | 122.684 | 122.159 | 122.26 | 122.291 | 122.536 | 122.949 |

Notes: 1. The value of U.S. dollar in terms of the SDR is the reciprocal of the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown. The amounts used for the purpose are noon rates in the London foreign exchange market. Wher.. the London market is closed, noon rates in the New York market are used. Frankfurt fixing rates are used when the New York market is closed. 2. The value in terms of the SDR of each of the other currencies shown above is derived from that currency's representative exchange rate against the U.S. dollar as reported by the issuing central bank, and the SDR value of the U.S. dollar, except for the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of the specified currency units per SDR.

Data: IMF Treasurer's Department

presenter welcomed the Fund's support for the design and implementation of social safety nets, but wanted the Fund to be more active in discouraging unproductive spending (notably, military spending) and in protecting expenditures intended to improve the environment (such as energy and water conservation and mass transit).

*Exchange Rate Policy.* Environmentalists and IMF staff agreed that the effects of exchange rate policy on the environment were not clear-cut. Although some NGO participants felt that where market or institutional failures existed, there may be scope to modify exchange rate policy advice, participants considered the exchange rate a blunt instrument for dealing with such failures and for avoiding the exploitation of natural resources.

### Future Directions

In his concluding comments, Gandhi offered his personal views of possible directions the IMF could take in coming years with respect to the environment. He noted, for example, that the IMF is likely to get involved in the work of the Commission on Sustainable Development and the implementation of "Agenda 21" (the action plan that emerged from the Rio Earth Summit). In addition, the IMF may have to integrate into its consultations with members the macroeconomic implications of "environmental action plans" that they may wish to adopt. These plans, depending upon the authorities' commitment, could have major macroeconomic consequences. They could, for example, call for re-

## Currency Units per SDR

| Currency | MAY 18 | 19 | 20 | 21 | 24 | 25 | 26 | 27 | 28 | JUNE 1 |
|---|---|---|---|---|---|---|---|---|---|---|
| Deutsche mark | 2.28316 | 2.28017 | ... | 2.28059 | 2.30465 | 2.30165 | 2.30046 | 2.30601 | 2.27696 | 2.27843 |
| French franc | 7.68686 | 7.71476 | ... | ... | 7.76995 | 7.74692 | 7.75713 | 7.74699 | 7.70291 | 7.67699 |
| Japanese yen | 156.466 | 157.27 | 156.122 | 156.999 | 155.19 | 155.469 | 155.899 | 155.257 | 155.561 | 155.436 |
| Pound sterling | 0.920227 | 0.914999 | 0.911644 | 0.909455 | 0.917359 | 0.916992 | 0.914494 | 0.912279 | 0.91045 | 0.910317 |
| U.S. dollar | 1.4068 | 1.40668 | 1.41168 | 1.4117 | 1.40443 | 1.40666 | 1.41469 | 1.41606 | 1.43947 | 1.43084 |
| Argentine peso | ... | ... | ... | ... | 1.40373 | ... | ... | 1.41594 | 1.43739 | 1.43082 |
| Australian dollar | 2.02273 | 2.03631 | 2.03662 | 2.03503 | 2.03668 | 2.01668 | 2.03697 | 2.04227 | 2.04290 | 2.12313 |
| Austrian schilling | 16.0753 | 16.047 | ... | 16.14 | 16.2228 | 16.1827 | 16.1948 | 16.1715 | 16.0446 | 16.0000 |
| Bahrain dinar | 0.528981 | 0.530107 | 0.530792 | 0.530788 | 0.528068 | 0.528017 | 0.531969 | 0.532668 | 0.537105 | 0.537821 |
| Bangladesh taka | 55.9509 | 56.1124 | 56.1849 | 56.1857 | 55.8903 | 55.987 | 56.3126 | 56.4782 | 56.9931 | 56.9396 |
| Belgian franc | 46.9572 | 46.8902 | ... | ... | 47.2245 | 47.2014 | 47.2668 | 47.1976 | 47.0662 | 46.7969 |
| Brazilian cruzeiro | 51857.4 | 52638.7 | 53348.4 | 53997.7 | 54372.8 | 56135.1 | 56134. | 56662.7 | 56801.5 | 56956.3 |
| Canadian dollar | 1.78916 | 1.787 | 1.78057 | 1.78782 | ... | 1.7739 | 1.78642 | 1.78889 | 1.81618 | 1.81977 |
| Colombian peso | 1166.01 | 1200.07 | 1202.4 | 1208.87 | 1187.39 | 1100.34 | 1208.82 | 1210.97 | 1219.58 | 1222.84 |
| Danish krone | 8.78609 | 8.74254 | ... | 8.7718 | 8.78665 | 8.80827 | 8.8084 | 8.80946 | 8.77162 | 8.7912 |
| Finnish markka | 7.82145 | 7.78169 | ... | 7.79329 | 7.78737 | 7.77247 | 7.78976 | 7.78089 | 7.78290 | 7.78217 |
| Greek drachma | 309.009 | 308.195 | 309.842 | 310.221 | 311.601 | 311.614 | 311.7 | 311.481 | 310.592 | 309.695 |
| Indian rupee | 44.0297 | 44.1686 | 44.2279 | 44.2144 | 43.9967 | 44.066 | 44.3265 | 44.473 | 44.8284 | ... |
| Indonesian rupiah | 2919.85 | 2928.26 | 2952.08 | 2953.51 | 2919.81 | 2926.48 | 2941.56 | 2948.79 | 2968.38 | 2974.9 |
| Iranian rial | 2302.7 | 2296.35 | 2298.22 | 2298.25 | 2290.79 | 2294.9 | 2297.76 | 2304.84 | ... | 2289.36 |
| Iraqi dinar | 0.437008 | 0.436285 | 0.436831 | 0.436837 | 0.436577 | 0.437364 | 0.436829 | 0.441122 | 0.44405 | 0.444726 |
| Irish pound | 0.969139 | 0.957806 | 0.956749 | 0.95782 | 0.943085 | 0.94111 | 0.943869 | 0.94089 | 0.934801 | 0.932884 |
| Italian lira | 2063.82 | 2079.59 | 2077.29 | 2079.63 | 2091.49 | 2092.7 | 2099.81 | 2109.11 | 2102.95 | 2099.89 |
| Korean won | 1127.31 | 1129.44 | 1132.45 | 1133.66 | 1126.07 | 1127.36 | 1133.75 | 1137.09 | 1144.63 | 1147.89 |
| Kuwaiti dinar | 0.423104 | 0.434491 | 0.434845 | ... | 0.422863 | 0.423579 | 0.425827 | 0.426579 | ... | ... |
| Libyan dinar | 0.414286 | 0.414286 | 0.414286 | 0.414286 | 0.414286 | 0.414286 | 0.414286 | 0.414286 | 0.414286 | 0.414286 |
| Malaysian ringgit | 3.6116 | 3.62264 | 3.62519 | 3.6203 | 3.60278 | 3.6104 | 3.62776 | 3.63461 | 3.63331 | 3.65471 |
| Maltese lira | 0.524767 | 0.527465 | 0.526491 | 0.524691 | 0.525463 | 0.527694 | 0.529069 | ... | 0.525552 | 0.526408 |
| Nepalese rupee | 89.5449 | 89.7458 | 89.7793 | 89.8382 | 89.2534 | 89.3772 | 89.7552 | 89.9704 | 70.355 | 70.429 |
| Netherlands guilder | 2.56982 | 2.56952 | ... | 2.56774 | 2.5791 | 2.57992 | 2.57894 | 2.5745 | 2.58939 | 2.54697 |
| New Zealand dollar | 2.61107 | 2.6191 | 2.62102 | 2.62173 | 2.59592 | 2.57732 | 2.58475 | 2.6009 | 2.62201 | 2.62455 |
| Norwegian krone | 9.67612 | 9.64987 | ... | 9.6845 | 9.6997 | 9.7242 | 9.72989 | 9.73466 | 9.71845 | 9.69499 |
| Omani rial | 0.54053 | 0.542091 | 0.542791 | 0.542799 | 0.540009 | 0.540978 | 0.544085 | 0.545835 | 0.549047 | 0.550081 |
| Pakistan rupee | 37.7696 | 37.8787 | 38.0128 | 38.0131 | 37.8174 | 37.8985 | 38.2135 | 38.3349 | 38.5788 | 38.6379 |
| Portuguese escudo | 216.741 | 216.903 | 217.311 | 217.618 | 217.893 | 217.992 | 218.245 | 221.281 | 220.042 | 219.57 |
| Qatar riyal | 5.11711 | 5.13169 | 5.13992 | 5.13899 | 5.11213 | 5.12139 | 5.1502 | 5.16934 | 5.18699 | 5.20709 |
| Saudi Arabian riyal | 5.26472 | 5.27998 | 5.29074 | 5.29992 | 5.26999 | 5.28907 | 5.30878 | 5.31434 | 5.34988 | 5.36775 |
| Singapore dollar | 2.27135 | 2.2798 | 2.27718 | 2.28004 | 2.269 | 2.27238 | 2.27864 | 2.28112 | 2.29727 | ... |
| South African rand | 4.48099 | 4.47701 | ... | ... | 4.48268 | 4.49499 | 4.51421 | 4.53008 | 4.54099 | 4.54688 |
| Spanish peseta | 173.912 | 174.589 | 174.339 | 174.67 | 175.599 | 175.42 | 176.021 | 181.218 | 180.369 | 180.16 |
| Sri Lanka rupee | 67.5909 | 67.8143 | 67.9099 | 67.8816 | 67.5671 | 67.6998 | 68.0704 | 68.2834 | 68.7201 | 68.8398 |
| Swedish krona | 10.3471 | ... | ... | 10.3619 | 10.2992 | 10.2912 | 10.3393 | 10.3436 | 10.3436 | 10.3998 |
| Swiss franc | 2.07637 | 2.07179 | ... | 2.07379 | 2.07294 | 2.06793 | 2.06864 | 2.0648 | 2.08771 | 2.09437 |
| Thai baht | 35.5105 | 35.6413 | 35.6449 | 35.6172 | 35.4478 | 35.6357 | 35.6994 | ... | 35.5575 | 35.5377 |
| Trinidad and Tobago dollar | 8.00271 | ... | 8.02975 | 8.09914 | 7.99942 | ... | 7.90372 | 8.09176 | 8.11815 | 8.15729 |
| U.A.E. dirham | 5.16069 | 5.1708 | 5.16998 | 5.16999 | 5.16999 | 5.16469 | 5.19439 | 5.20999 | 5.24391 | 5.26199 |
| Venezuelan bolivar | ... | 122.999 | 123.24 | 123.455 | ... | *20.179 | 128.899 | 194.157 | 194.777 | 195.109 |

Notes: 1. The value of U.S. dollar in terms of the SDR is the reciprocal of the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown. The exchange rates used for this purpose are noon rates in the London foreign exchange market. When the London market is closed, noon rates in the New York market are used. Frankfurt fixing rates are used when the New York market is closed. 2. The value in terms of the SDR of each of the other currencies shown above is derived from that currency's representative exchange rate against the U.S. dollar as reported by the issuing central bank and the SDR value of the U.S. dollar, except for the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of the domestic currency units per SDR.

Data: IMF Treasurer's Department

designing stabilization strategies and for greater financial assistance from abroad, or both. In any case, the macroeconomic programming exercises and use of IMF resource negotiations by IMF staff may have to take such implications into account.

### Addresses by the Deputy Managing Director

Deputy Managing Director Richard Erb addressed the seminar at a luncheon on May 12 and at the seminar's conclusion on May 14. In his comments, Erb emphasized the importance of international financial institutions focusing on areas in which they have comparative advantage and for them to have clear mandates. He said that the IMF should pursue its own comparative advantage in the macroeconomic policy area but would also pay attention to sectoral policy issues, military spending, and the environment, drawing on those institutions (such as the World Bank) with expertise in these areas. Pointing to the recent dramatic expansion in the IMF's activities around the world, Erb expressed concern that staff not be spread too thinly. He stated that any change in the IMF's work in the environmental area was up to the Executive Board.

The Fund's role in the environmental area is evolving, according to Erb. Although its basic work is consistent with the need to improve general well-being and the environment, he agreed that more needed to be done in some of the areas identified by Kelly and Gandhi, especially on national accounts. He noted that the condition of national accounts in many countries was very poor and that the IMF was doing a great deal to help improve them, but that it would take years for some members to develop adequate accounting systems.

In the short term, Erb saw some scope for the IMF to do more in the environmental area. The IMF looked to the World Bank, however, to determine the costs of specific environmental programs, which the IMF could incorporate into its fiscal policy advice.

Finally, as part of the continuing dialogue between IMF staff and NGOs, Erb suggested that IMF staff on missions, as well as IMF resident representatives, could make greater efforts to learn from NGOs doing research on the environmental aspects of macroeconomic issues.

*David Reed (left), Director of International Institutions Policy for the World Wide Fund for Nature, confers with Andrew Steer, Deputy Director of the World Bank's Environment Department.*

June 14, 1993 • Volume 22, Number 12

Gerald R. Rosen, *Editor*

Paul Gleason • Vikram R. Khanna • Sheila Meehan • Margaret Casey • Elisa Diehl • Sharon Metzger • Susan Scott • Philip Torsani
*Assistant Editor* *Assistant Editor* *Assistant Editor* *Senior Editorial Assistants* *Editorial Assistant* *Art Editor* *Graphic Artist*

The *IMF Survey* (ISSN 0047-083X) is published by the International Monetary Fund 23 times a year, ordinarily on alternate Mondays, in addition to an annual *Supplement on the Fund*, an annual Index, and other occasional supplements. Editions are also published in French (*Bulletin*) and Spanish (*Boletín*).The opinions and materials contained in the *IMF Survey*, including any legal aspects, do not necessarily reflect the official views of the IMF. Editorial correspondence should be addressed to Current Publications Division, Room IS5-1500, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-8585. The *IMF Survey* is distributed by first-class mail in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged an annual rate of US$60.00. Apply for subscriptions to Publication Services, Box S-99, IMF, Washington, D.C., 20431, U.S.A. Telephone: (202) 623-7430. Cable: Interfund. Facsimile: (202) 623-7201.